oerlikon

# Interim Report **HY2017**

# Letter to Shareholders from the Chairman of the Board of Directors and the CEO

Dear Shareholders

In the first six months of 2017, we continued to execute our strategy and successfully delivered a strong performance. We were able to master the challenges of the markets by clearly focusing on developing sales while improving our cost structure. We expanded the growth platform for our surface solutions business, strengthened our manmade fibers business and repositioned our drive systems business to focus on their respective key competencies. As a result of our strategic actions, we were able to capture the opportunities that arose from the pick-up in our key end markets, and increased orders and sales in all Segments.

The global economy demonstrated positive momentum in recent months, with an upswing in investments, manufacturing and trade, which is also reflected in our key end markets. Stronger trade, expectations of more robust global demand, reduced deflationary pressures, and more optimistic financial markets are some of the upside developments that have improved industrial investment sentiments globally and in many sectors. In this environment, the steps we have taken placed us in a strong position to capitalize on the growing demand in the aerospace, automotive, general industries, tooling, filament equipment and construction sectors.

In the first half of the year, order intake increased year-on-year by 21.6 % to CHF 1 436 million, while sales came in at 10.9 % higher than the previous year, reaching CHF 1 297 million. With the top-line increase, EBITDA for the half year amounted to CHF 178 million, corresponding to a margin of 13.7 %. EBIT stood at CHF 84 million, or 6.5 % of sales. Result from continuing operations increased by 54.8 % to CHF 48 million, and the net result for the first half of the year increased by 11.6 % year-on-year to CHF 48 million as well.

The Surface Solutions Segment continued to make important progress with the expansion of its business activities and delivered strong results with increases in year-on-year orders and sales. We saw stable upward demand for our technologies from the automotive and aerospace industries and a noticeably higher demand in general industries and tooling. Despite the investments in our additive manufacturing business and the acquisitions we made to strengthen our portfolio and expertise in surface solutions, the Segment's operating profitability for the second quarter was sustained at over 20 %. This, for the eleventh consecutive quarter.

For our surface solutions business, we closed two technology acquisitions in the first half of 2017. The business of Recentis Advanced Materials Inc., Canada, supplements Oerlikon with valuable expertise in material technologies and in mastering materials manufacturing at very high temperatures (above 3 200 °C). This opens up new applications in the fields of oil & gas, mining, steel, power and aviation, particularly for customers facing critical wear problems. The second acquisition was Scoperta Inc., USA, which provides us with proprietary process technology and expertise in rapid designing and development of new and innovative materials using computational software. At the beginning of the year, we also announced our acquisition of Dépots Métalliques Sous Vide (DMX), France, which allows us to extend our coating offering and services in France and on the medical and forming tools markets.

As we strengthen our approach on growth markets, we continued to expand our footprint on attractive markets. Since the beginning of 2017, we have expanded and upgraded a Surface Solutions Segment plant in Pune, India. In Germany, our new and larger site in Bielefeld started production in the second quarter. We are also building a new surface solutions center in Nagoya, Japan, for a newly acquired major Japanese automotive customer and to expand our position in the Japanese automotive industry. At our customer IMCO Carbide Tool's facility in Perrysburg, Ohio, USA, we opened a new in-house coating center, which is the fourth in-house coating center that we manage in the US.

In the first half of 2017, we have made progress in establishing a leadership position in the attractive additive manufacturing (AM) business. To ramp up our own AM competencies and capacity in the US, we have begun building a state-of-the-art R&D and production facility for additively manufactured components in Charlotte, North Carolina. This production facility complements our advanced materials manufacturing facility in Plymouth Township, Michigan, which is currently under construction, as well as citim's additive production facilities in Europe and in the USA that we have acquired. This set-up will allow us to offer AM technology and services both in Europe and the US.

We also continued to build our partnership network of leading AM players to support the acceleration of AM industrialization. At the Paris Air Show, we signed an agreement with GE Additive for Oerlikon to become a preferred AM component manufacturer and materials supplier to GE Additive and its affiliated companies. Furthermore, Oerlikon and GE will collaborate on R&D for additive machines and materials. We also entered into two academic partnerships – one with the Technical University of Munich in Germany, and a second one with the Skolkovo Institute of Science and Technology in Russia – to address and resolve the most pressing R&D challenges in AM.

In our manmade fibers business, the filament equipment market saw further recovery in the first half of the year, albeit starting at a very low level. The Segment managed to increase its half-year orders by more than 50 % and sales grew by 18 % year-on-year. This was driven by business wins both inside and outside of China, including new customer wins in South America and large projects in India and Turkey. An increase in demand for staple fibers and an order for a filament spinning plant for special yarns, including polycondensation equipment, also contributed to the growth. To strengthen our services for regional customers, we have opened a new service center in India. Furthermore, we have entered into a strategic partnership with Teknoweb Materials to address the attractive high-growth market for disposable nonwovens. The ramp-up in production to meet demand, service expansion and ongoing impact of lower-margin orders from the down-cycle period resulted in operating profits coming in lower compared to the previous year. For the second half of the year, we expect to see ongoing positive development in the filament equipment and non-filament markets. These developments and expected changes in order quality should have a positive impact on the Segment's top line and profitability in the coming quarters.

The Drive Systems Segment continued to see positive effects from its repositioning initiatives and a recovery in most of its key markets. For the first six months of 2017, we are pleased to report an increase in orders and sales. Higher demand was noted in the agriculture, transportation, construction and automotive sectors. The construction sector recuperated globally, with growth in the US and Europe and higher investments made in China and India. The global automotive sector, in particular high-performance vehicles, saw an increase in demand, and a positive trend in agriculture was registered in Europe, Russia and India as a result of government subsidies and measures and a positive business outlook. The US energy market, particularly for shale oil and gas, appears to be slightly ramping up its activities and investments. Our strategic initiatives to expand our technologies in the e-drives market continued to bear fruit. We have presented new technologies, such as the modular dedicated hybrid transmission systems, and have established partnerships with leading automotive manufacturers for hybrid and electric transmissions projects for personal and commercial vehicles. Furthermore, we have taken a strategic stake in Ashwoods Electric Motors, following the successful co-development of innovative electric motors that are 20 % more efficient and up to 70 % smaller and lighter than conventional designs.

Global economic signs indicate that the ongoing growth momentum will continue in the second half of 2017. Growth in China and India is expected to prevail, reflecting the policy support from their respective governments, while the economic outlook for the United States is positive. In Europe, the economy is projected to remain on its path of growth as investments appear to continue and concerns over political uncertainties ebb across the region. However, in today's integrated global economy, certain political and economic risks and challenges still remain. Having said that, based on our strong performance in the first half of 2017, the Group is confident that it will deliver on its guidance, with order intake and sales each expected to come in at around CHF 2.6 billion, and the EBITDA margin to approach 14 %, after absorbing the unchanged planned financial outlay for investing in additive manufacturing.

The results in the first half of the year confirm that we have the strategy to build a sustainable business in attractive growth markets. We will maintain our focus on executing our strategy and take advantage of arising opportunities. We thank you for your continued trust and confidence in us.

**Prof. Dr. Michael Süss**
Chairman of the
Board of Directors

**Dr. Roland Fischer**
Chief Executive Officer

# Key developments in the first half of 2017

## Key figures

| | Order intake | Sales | EBITDA margin | Net profit |
|---|---|---|---|---|
| **Group** | +21.6 % to CHF 1 436 million | +10.9 % to CHF 1 297 million | 13.7 % | +11.6 % to CHF 48 million |
| **Surface Solutions Segment** | +12.5 % to CHF 694 million | +10.3 % to CHF 672 million | 20.8 % | |
| **Manmade Fibers Segment** | +51.4 % to CHF 377 million | +17.7 % to CHF 279 million | 1.5 % | |
| **Drive Systems Segment** | +15.9 % to CHF 365 million | +7.1 % to CHF 346 million | 9.6 % | |

## Key achievements

Through mastering market challenges and focusing on developing sales, Oerlikon increased orders and sales in all Segments.

Acquired the business of Recentis Advanced Materials Inc. and Scoperta Inc. for expertise and competencies in materials design, development and manufacturing. Took a strategic stake in Ashwoods Electric Motors after successfully co-developing efficient, smaller and lighter electric motors.

Exercising disciplined cost management and improving the cost structure resulted in higher operating profitability.

Strengthened global footprint in Japan (Nagoya), India (Pune), Germany (Bielefeld) and the USA (Perrysburg, Ohio) to serve customers in closer proximity. Building two new facilities in the US (North Carolina & Michigan) to produce advanced materials and additively manufactured components.

Won new customers and projects in all Segments and businesses. For example, in Europe general industries, tooling, agriculture and construction; in China tooling, general industries and filament equipment; in Japan automotive (surface solutions); in US agriculture and carpet yarn; and in South America and Turkey filament equipment.

Entered into partnerships with GE Additive, TU Munich and Skoltech for additive manufacturing business, with Teknoweb Materials for nonwovens and with leading automotive manufacturers for hybrid and electric transmissions projects.

# Financial report

# Interim financial report 2017

## Key figures Oerlikon Group

| in CHF million | **January 1 to June 30, 2017, unaudited** | January 1 to June 30, 2016, unaudited |
|---|---|---|
| Order intake[1] | 1 436 | 1 181 |
| Order backlog[1] | 578 | 401 |
| Sales[1] | 1 297 | 1 169 |
| EBITDA[1] | 178 | 157 |
| – as % of sales | 13.7 % | 13.4 % |
| EBIT[1] | 84 | 68 |
| – as % of sales | 6.5 % | 5.8 % |
| Result from continuing operations | 48 | 31 |
| Result from discontinued operations, net of income taxes | – | 12 |
| Net income | 48 | 43 |
| – as % of equity attributable to shareholders of the parent | 3 % | 3 % |
| Cash flow from operating activities[2] | 111 | 114 |
| Capital expenditure for property, plant and equipment and intangible assets[1] | 79 | 56 |
| Total assets (June 30, 2017/December 31, 2016) | 3 897 | 3 825 |
| Equity attributable to shareholders of the parent (June 30, 2017/December 31, 2016) | 1 776 | 1 826 |
| – as % of total assets | 46 % | 48 % |
| Net cash (June 30, 2017/December 31, 2016)[3] | 309 | 401 |
| Net Operating Assets (June 30, 2017/December 31, 2016)[4] | 1 918 | 1 867 |
| Number of employees (full-time equivalents) (June 30, 2017/December 31, 2016) | 14 435 | 13 840 |
| Research and development expenditure[1,5] | 53 | 48 |

[1] Continuing operations.

[2] Cash flow from operating activities before changes in net current assets amounts to CHF 166 million (previous year: CHF 144 million).

[3] Net cash includes cash and cash equivalents, deposits and marketable securities less current and non-current debt.

[4] Net operating assets include current and non-current operating assets (including goodwill and brands and excluding cash and cash equivalents, current financial investments, current income tax receivables and deferred tax assets) less operating liabilities (excluding current loans and borrowings, non-current financial liabilities, current income tax payables and deferred tax liabilities).

[5] Research and development expenditure includes expenses recognized as intangible assets in the amount of CHF 11 million (previous year: CHF 9 million).

## Consolidated income statement

| in CHF million | **January 1 to June 30, 2017, unaudited** | January 1 to June 30, 2016, unaudited |
|---|---|---|
| Sales of goods | 834 | 747 |
| Services rendered | 463 | 422 |
| **Total sales** | **1 297** | **1 169** |
| Cost of sales | –949 | –853 |
| **Gross profit** | **348** | **316** |
| Marketing and selling | –85 | –83 |
| Research and development | –57 | –52 |
| Administration | –124 | –119 |
| Other income | 15 | 17 |
| Other expense | –13 | –11 |
| **Result before interest and taxes (EBIT)** | **84** | **68** |
| Financial income | 4 | 9 |
| Financial expense | –12 | –22 |
| **Result before taxes (EBT)** | **76** | **55** |
| Income taxes | –28 | –24 |
| **Result from continuing operations** | **48** | **31** |
| Result from discontinued operations, net of income taxes | – | 12 |
| **Net income** | **48** | **43** |
| Attributable to: | | |
| Shareholders of the parent | 48 | 42 |
| Non-controlling interests | – | 1 |
| Earnings per share in CHF | **0.14** | 0.12 |
| Diluted earnings per share in CHF | **0.14** | 0.12 |
| Earnings per registered share continuing operations in CHF | **0.14** | 0.08 |
| Diluted earnings per registered share continuing operations in CHF | **0.14** | 0.08 |
| Earnings per registered share discontinued operations in CHF | **0.00** | 0.04 |
| Diluted earnings per registered share discontinued operations in CHF | **0.00** | 0.04 |

# Consolidated statement of comprehensive income

| in CHF million | **January 1 to June 30, 2017, unaudited** | January 1 to June 30, 2016, unaudited |
|---|---|---|
| Net income | 48 | 43 |
| **Other comprehensive income** | | |
| **Items that will never be reclassified to the income statement** | | |
| Remeasurement of defined benefit plans | 22 | –117 |
| Income taxes on items that will never be reclassified to the income statement | –5 | 33 |
| | **17** | **–84** |
| **Items that are or may be reclassified subsequently to the income statement** | | |
| Effective portion of changes in fair value of cash flow hedges | 4 | 4 |
| Conversion differences | –18 | –1 |
| Income taxes on items that are or may be reclassified subsequently to the income statement | –1 | –1 |
| | **–15** | **2** |
| **Other comprehensive income for the period, net of taxes** | **2** | **–82** |
| **Total comprehensive income for the period** | **50** | **–39** |
| Attributable to: | | |
| Shareholders of the parent | 50 | –39 |
| Non-controlling interests | – | – |

# Consolidated balance sheet

## Assets

| in CHF million | June 30, 2017, unaudited | December 31, 2016 |
|---|---|---|
| Cash and cash equivalents | 691 | 751 |
| Current financial investments and derivatives | 92 | 121 |
| Trade and trade notes receivable | 403 | 369 |
| Other receivables | 167 | 85 |
| Current income tax receivables | 27 | 41 |
| Inventories | 389 | 353 |
| Prepaid expenses and accrued income | 25 | 16 |
| **Current assets** | **1 794** | **1 736** |
| Loans and other non-current financial receivables | 22 | 22 |
| Non-current financial investments | 14 | 6 |
| Property, plant and equipment | 735 | 745 |
| Goodwill and intangible assets | 1 175 | 1 154 |
| Post-employment benefit assets | 3 | 3 |
| Deferred tax assets | 154 | 159 |
| **Non-current assets** | **2 103** | **2 089** |
| **Total assets** | **3 897** | **3 825** |

## Liabilities and equity

| in CHF million | June 30, 2017, unaudited | December 31, 2016 |
|---|---|---|
| Trade payables | 277 | 239 |
| Current financial liabilities and derivatives | 5 | 6 |
| Other current payables | 59 | 60 |
| Accrued liabilities | 176 | 178 |
| Current customer advances | 262 | 167 |
| Current income taxes payable | 50 | 44 |
| Current post-employment benefit liabilities | 18 | 18 |
| Other current provisions | 67 | 71 |
| **Current liabilities** | **914** | **783** |
| Non-current loans and borrowings | 466 | 466 |
| Other non-current liabilities | 24 | 3 |
| Non-current post-employment benefit liabilities | 410 | 433 |
| Deferred tax liabilities | 161 | 159 |
| Other non-current provisions | 128 | 141 |
| **Non-current liabilities** | **1 189** | **1 202** |
| **Total liabilities** | **2 103** | **1 985** |
| Share capital | 340 | 340 |
| Treasury shares | –4 | –5 |
| Retained earnings and reserves | 1 440 | 1 491 |
| **Equity attributable to shareholders of the parent** | **1 776** | **1 826** |
| Non-controlling interests | 18 | 14 |
| **Total equity** | **1 794** | **1 840** |
| **Total liabilities and equity** | **3 897** | **3 825** |

# Consolidated cash flow statement[1]

| in CHF million | **January 1 to June 30, 2017, unaudited** | January 1 to June 30, 2016, unaudited |
|---|---|---|
| Net income | 48 | 43 |
| Income taxes | 28 | 29 |
| Interest expense (net) | 5 | 15 |
| Depreciation of property, plant and equipment | 65 | 62 |
| Amortization of intangible assets | 29 | 27 |
| Addition to other provisions (net) | 6 | 8 |
| Decrease in post-employment benefit liabilities | –3 | –3 |
| Income taxes paid | –15 | –36 |
| Other non-cash items | 3 | –1 |
| Cash flow from operating activities before changes in net current assets | 166 | 144 |
| Increase/decrease in receivables, prepaid expenses and accrued income | –129 | 1 |
| Increase in inventories | –41 | –20 |
| Increase/decrease in payables, accrued liabilities and use of other provisions | 20 | –28 |
| Increase in customer advances | 95 | 16 |
| Non-cash impact on net current assets due to hedge accounting | – | 1 |
| Cash flow from changes in net current assets | –55 | –30 |
| **Cash flow from operating activities** | **111** | **114** |
| Purchase of property, plant and equipment | –63 | –42 |
| Purchase of intangible assets | –16 | –20 |
| Acquisition of subsidiaries, net of cash acquired | –10 | –11 |
| Acquisition of associates | –8 | – |
| Repayment of liabilities relating to acquisition of subsidiaries | – | –4 |
| Purchase of financial investments | –8 | – |
| Proceeds from sale of financial investments | 42 | – |
| Proceeds from sale of property, plant and equipment | 2 | 3 |
| Interest received | 3 | 4 |
| **Cash flow from investing activities** | **–58** | **–70** |
| Dividends paid | –103 | –103 |
| Repayment of financial debt | –2 | –1 |
| Proceeds from foundation of subsidiaries with non-controlling interests | 5 | – |
| Interest paid | –10 | –14 |
| **Cash flow from financing activities** | **–110** | **–118** |
| Conversion adjustments to cash and cash equivalents | –3 | –4 |
| **Decrease in cash and cash equivalents** | **–60** | **–78** |
| Cash and cash equivalents at the beginning of the period[2] | 751 | 851 |
| Cash and cash equivalents at the end of the period[3] | 691 | 773 |
| **Decrease in cash and cash equivalents** | **–60** | **–78** |

[1] The cash flow statement includes effects from discontinued operations as well as assets and liabilities held for sale. Refer to Note "Acquistion and divestments" on pages 18 and 19 for cash flow from discontinued operations.

[2] 2016: Includes CHF 11 million, which are included in "Assets classified as held for sale" in the balance sheet as of December 31, 2015.

[3] 2016: Includes CHF 17 million, which are included in "Assets classified as held for sale" in the balance sheet as of June 30, 2016.

## Consolidated statement of changes in equity

| in CHF million | Share capital[1] | Additional paid-in capital | Treasury shares | Conversion differences | Retained earnings | Hedge accounting | Income taxes | **Total equity attributable to shareholders** | Non-controlling interests | **Total share-holders' equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2016** | **340** | **1 217** | **–6** | **–453** | **370** | **–5** | **91** | **1 554** | **18** | **1 572** |
| Net income | – | – | – | – | 42 | – | – | 42 | 1 | 43 |
| Changes in fair value of cash flow hedges | – | – | – | – | – | 4 | –1 | 3 | – | 3 |
| Remeasurement of defined benefit plans[2] | – | – | – | – | –117 | – | 33 | –84 | – | –84 |
| Conversion differences | – | – | – | – | – | – | – | – | –1 | –1 |
| **Other comprehensive income for the period** | **–** | **–** | **–** | **–** | **–117** | **4** | **32** | **–81** | **–1** | **–82** |
| **Total comprehensive income for the period** | **–** | **–** | **–** | **–** | **–75** | **4** | **32** | **–39** | **–** | **–39** |
| Dividend distributions | – | –102 | – | – | – | – | – | –102 | –1 | –103 |
| Share-based payments | – | – | – | – | 4 | – | – | 4 | – | 4 |
| **Contributions and distributions** | **–** | **–102** | **–** | **–** | **4** | **–** | **–** | **–98** | **–1** | **–99** |
| **Total transactions with owners of the company** | **–** | **–102** | **–** | **–** | **4** | **–** | **–** | **–98** | **–1** | **–99** |
| **Balance at June 30, 2016** | **340** | **1 115** | **–6** | **–453** | **299** | **–1** | **123** | **1 417** | **17** | **1 434** |
| **Balance at January 1, 2017** | **340** | **1 115** | **–5** | **–431** | **696** | **–1** | **112** | **1 826** | **14** | **1 840** |
| Net income | – | – | – | – | 48 | – | – | 48 | – | 48 |
| Changes in fair value of cash flow hedges | – | – | – | – | – | 4 | –1 | 3 | – | 3 |
| Remeasurement of defined benefit plans | – | – | – | – | 22 | – | –5 | 17 | – | 17 |
| Conversion differences | – | – | – | –18 | – | – | – | –18 | – | –18 |
| **Other comprehensive income for the period** | **–** | **–** | **–** | **–18** | **22** | **4** | **–6** | **2** | **–** | **2** |
| **Total comprehensive income for the period** | **–** | **–** | **–** | **–18** | **70** | **4** | **–6** | **50** | **–** | **50** |
| Dividend distributions | – | –102 | – | – | – | – | – | –102 | –1 | –103 |
| Share-based payments | – | – | 1 | – | 1 | – | – | 2 | – | 2 |
| **Contributions and distributions** | **–** | **–102** | **1** | **–** | **1** | **–** | **–** | **–100** | **–1** | **–101** |
| Foundation of subsidiaries with non-controlling interests[3] | – | – | – | – | – | – | – | – | 5 | 5 |
| **Changes in ownership interests** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **5** | **5** |
| **Total transactions with owners of the company** | **–** | **–102** | **1** | **–** | **1** | **–** | **–** | **–100** | **4** | **–96** |
| **Balance at June 30, 2017** | **340** | **1 013** | **–4** | **–449** | **767** | **3** | **106** | **1 776** | **18** | **1 794** |

[1] The share capital of OC Oerlikon Corporation AG, Pfäffikon, consists of 339 758 576 fully-paid registered shares (previous year: 339 758 576) of nominal value CHF 1 each.

[2] Actuarial losses due to lower discount rates; mainly in Germany (decrease from 2.3% to 1.2%) and Switzerland (decrease from 0.8% to 0.3%).

[3] Foundation of GK Drive Systems (Suzhou) Co., Ltd. in February 2017 (Oerlikon's share being 51%).

# Significant accounting principles

### Company operations
OC Oerlikon Corporation AG, Pfäffikon, is a Swiss public company located in Churerstrasse 120, Pfäffikon, canton of Schwyz, Switzerland. It is the ultimate parent company of the Oerlikon Group, a leading high-tech industrial Group which provides innovative industrial solutions and cutting-edge technologies for surface solutions, manmade fibers manufacturing and drive systems.

### Basis of preparation
The unaudited consolidated interim financial statements of OC Oerlikon Corporation AG, Pfäffikon, for the first half-year of 2017 are presented in a condensed form and have been prepared in accordance with IAS 34 Interim Financial Reporting and Swiss company law. These accounting standards have been applied consistently in all periods presented in this report. The reporting period is six months. The consolidated income statement shows operating costs grouped by function. Assets and liabilities in the consolidated balance sheet are classified as current or non-current. The consolidated interim financial statements do not include all the details contained in the consolidated annual financial statements and should therefore be read in conjunction with the annual consolidated financial statements as of December 31, 2016. The consolidated interim financial statements were approved by the Board of Directors on August 4, 2017. All amounts in the consolidated interim financial statements are presented in millions of Swiss francs (CHF million) and all amounts (including totals and subtotals) have been rounded according to normal commercial practice. Thus, an addition of the figures presented can result in rounding differences.

### Judgments, estimates and assumptions
Preparation of the consolidated interim financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the values of reported revenues, expenses, assets, liabilities and contingent liabilities at the reporting date. These estimates and assumptions are constantly being revised. Depending on the issues involved, revision of such assumptions can have an effect on the current period, as well as potentially on future periods. These estimates, judgments and assumptions are based on historical experience and other factors that are believed to be reasonable and justified as expectations of future events. However, actual results can differ from these estimates. The same significant assumptions and estimates were made by management for these consolidated interim financial statements as for the annual consolidated financial statements as of December 31, 2016.

### Seasonality
The Oerlikon Group operates in industries where sales are not subject to significant seasonal or cyclical variations during the financial year.

### Significant accounting policies
The accounting policies in this interim financial report match those applied in the audited annual consolidated financial statements as of December 31, 2016, with exception of the changes shown below under "Adoption of new and revised accounting standards".

### Adoption of new and revised accounting standards
The adoption of new or amended standards and interpretations which are effective for the financial year beginning on January 1, 2017, did not have a material impact on the Group's consolidated financial statements.

### Newly published accounting standards not early adopted
The IASB has published a number of new and revised standards and interpretations that will come into force later and have not been implemented ahead of their effective dates. Their effects on the Oerlikon Group's financial statements have not yet been fully analyzed, but an initial review has been conducted and all standards with an expected effect on the Group's financial statements are summarized in the following table:

| Standard/interpretation | Impact level | Effective date | Planned application by Oerlikon |
|---|---|---|---|
| IFRS 15 – Revenue Recognition | * | 1.1.2018 | Reporting year 2018 |
| IFRS 9 – Financial Instruments | * | 1.1.2018 | Reporting year 2018 |
| IFRS 16 – Leases | * | 1.1.2019 | Reporting year 2019 |

* The impact on the consolidated financial statements is currently being assessed.

### Segment information
The Segment reporting of the Oerlikon Group is in accordance with the "management approach" and based on the internal structure and reporting. The Executive Committee is an advisory body to the Chief Executive Officer (CEO). The CEO performs the function of the Chief Operating Decision Maker (CODM), assesses performance and makes resource allocation decisions. The CODM receives information on Business Unit level for the Surface Solutions Segment. In accordance with the aggregation criteria of IFRS 8, these Business Units have been aggregated to one reportable Segment. The internal reporting to the Executive Committee and the Board of Directors is based on uniform Group accounting principles, which correspond to those used in the consolidated financial statements. Intersegment pricing is determined on an arm's length basis.

**The Group consists of the following reportable Segments:**

- The Surface Solutions Segment supplies PVD coatings that increase the performance of tools and precision components and offers specialized components and innovative surface engineering products and services.
- The Manmade Fibers Segment develops and manufactures textile machinery.
- The Drive Systems Segment manufactures gears and other components for power transmission, mainly in motor vehicles.

## Segment information

| in CHF million | Surface Solutions Segment 2017 | Surface Solutions Segment 2016 | Manmade Fibers Segment 2017 | Manmade Fibers Segment 2016 | Drive Systems Segment 2017 | Drive Systems Segment 2016 | Total Segments 2017 | Total Segments 2016 |
|---|---|---|---|---|---|---|---|---|
| **Order intake** | **694** | **617** | **377** | **249** | **365** | **315** | **1 436** | **1 181** |
| **Order backlog** | **102** | **91** | **366** | **209** | **110** | **101** | **578** | **401** |
| **Sales** | | | | | | | | |
| Sales to third parties | 672 | 609 | 279 | 237 | 346 | 323 | 1 297 | 1 169 |
| Sales to other segments | 3 | 2 | – | – | – | – | 3 | 2 |
| Eliminations | –3 | –2 | – | – | – | – | –3 | –2 |
| | **672** | **609** | **279** | **237** | **346** | **323** | **1 297** | **1 169** |
| **Sales by market region to third parties** | | | | | | | | |
| Asia/Pacific | 208 | 168 | 166 | 140 | 51 | 46 | 425 | 354 |
| Europe | 308 | 296 | 74 | 52 | 164 | 159 | 546 | 507 |
| North America | 126 | 116 | 22 | 30 | 119 | 107 | 267 | 253 |
| Other regions | 30 | 29 | 17 | 15 | 12 | 11 | 59 | 55 |
| | **672** | **609** | **279** | **237** | **346** | **323** | **1 297** | **1 169** |
| **Sales by location to third parties** | | | | | | | | |
| Asia/Pacific | 186 | 156 | 75 | 97 | 72 | 58 | 333 | 311 |
| thereof China | 67 | 49 | 71 | 93 | 15 | 12 | 153 | 154 |
| Europe | 328 | 310 | 193 | 131 | 173 | 162 | 694 | 603 |
| thereof Switzerland | 47 | 40 | – | – | – | – | 47 | 40 |
| Germany | 164 | 165 | 193 | 131 | – | – | 357 | 296 |
| Italy | 20 | 19 | – | – | 170 | 159 | 190 | 178 |
| North America | 136 | 125 | 11 | 9 | 101 | 103 | 248 | 237 |
| thereof USA | 122 | 112 | 11 | 9 | 101 | 103 | 234 | 224 |
| Other regions | 22 | 18 | – | – | – | – | 22 | 18 |
| | **672** | **609** | **279** | **237** | **346** | **323** | **1 297** | **1 169** |
| **Capital expenditure for property, plant and equipment and intangible assets[4]** | | | | | | | | |
| Asia/Pacific | 11 | 5 | – | – | 10 | 3 | 21 | 8 |
| Europe | 28 | 26 | 6 | 5 | 6 | 6 | 40 | 37 |
| North America | 14 | 7 | – | – | 2 | 1 | 16 | 8 |
| Other regions | 1 | 2 | – | – | – | – | 1 | 2 |
| | **54** | **40** | **6** | **5** | **18** | **10** | **78** | **55** |
| **EBITDA** | **141** | **133** | **4** | **7** | **33** | **21** | **178** | **161** |
| **EBIT** | **80** | **76** | **–6** | **–2** | **11** | **–1** | **85** | **73** |
| **Other material items** | | | | | | | | |
| Research and development expense | –39 | –36 | –11 | –9 | –7 | –7 | –57 | –52 |
| Depreciation and amortization | –61 | –57 | –10 | –9 | –22 | –22 | –93 | –88 |
| **Net operating assets** | **30.06.17** | 31.12.16 | **30.06.17** | 31.12.16 | **30.06.17** | 31.12.16 | **30.06.17** | 31.12.16 |
| Operating assets[2] | 1 706 | 1 641 | 610 | 515 | 595 | 578 | 2 911 | 2 734 |
| Operating liabilities[3] | –268 | –269 | –457 | –352 | –236 | –218 | –961 | –839 |
| | **1 438** | **1 372** | **153** | **163** | **359** | **360** | **1 950** | **1 895** |
| **Number of employees (full-time equivalents)** | **30.06.17** | 31.12.16 | **30.06.17** | 31.12.16 | **30.06.17** | 31.12.16 | **30.06.17** | 31.12.16 |
| Asia/Pacific | 1 702 | 1 646 | 881 | 858 | 2 697 | 2 398 | 5 280 | 4 902 |
| Europe | 3 608 | 3 486 | 1 382 | 1 366 | 1 755 | 1 782 | 6 745 | 6 634 |
| North America | 1 159 | 1 094 | 56 | 54 | 659 | 639 | 1 874 | 1 787 |
| Other regions | 314 | 302 | – | – | – | – | 314 | 302 |
| | **6 783** | **6 528** | **2 319** | **2 278** | **5 111** | **4 819** | **14 213** | **13 625** |

[1] Discontinued operations in 2016 include the Vacuum Segment.

[2] Operating assets include current and non-current operating assets (including goodwill and brands), whereas cash and cash equivalents, current financial investments, current income tax receivables as well as deferred tax assets are not included.

[3] Operating liabilities include current and non-current operating liabilities, whereas current loans and borrowings, non-current financial liabilities, current income tax payables and deferred tax liabilities are not included.

| | Group/Eliminations | | Total from continuing operations | | Discontinued operations[1] | | Total incl. discontinued operations | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | | | | | | | | |
| | **–** | **–** | **1 436** | **1 181** | **–** | **189** | **1 436** | **1 370** |
| | | | | | | | | |
| | **–** | **–** | **578** | **401** | **–** | **67** | **578** | **468** |
| | | | | | | | | |
| | | | | | | | | |
| | – | – | 1 297 | 1 169 | – | 182 | 1 297 | 1 351 |
| | –3 | –2 | – | – | – | – | – | – |
| | 3 | 2 | – | – | – | – | – | – |
| | **–** | **–** | **1 297** | **1 169** | **–** | **182** | **1 297** | **1 351** |
| | | | | | | | | |
| | | | | | | | | |
| | – | – | 425 | 354 | – | 61 | 425 | 415 |
| | – | – | 546 | 507 | – | 80 | 546 | 587 |
| | – | – | 267 | 253 | – | 35 | 267 | 288 |
| | – | – | 59 | 55 | – | 6 | 59 | 61 |
| | **–** | **–** | **1 297** | **1 169** | **–** | **182** | **1 297** | **1 351** |
| | | | | | | | | |
| | | | | | | | | |
| | – | – | 333 | 311 | – | 55 | 333 | 366 |
| | – | – | 153 | 154 | – | 29 | 153 | 183 |
| | – | – | 694 | 603 | – | 88 | 694 | 691 |
| | – | – | 47 | 40 | – | – | 47 | 40 |
| | – | – | 357 | 296 | – | 88 | 357 | 384 |
| | – | – | 190 | 178 | – | – | 190 | 178 |
| | – | – | 248 | 237 | – | 38 | 248 | 275 |
| | – | – | 234 | 224 | – | 38 | 234 | 262 |
| | – | – | 22 | 18 | – | 1 | 22 | 19 |
| | **–** | **–** | **1 297** | **1 169** | **–** | **182** | **1 297** | **1 351** |
| | | | | | | | | |
| | | | | | | | | |
| | – | – | 21 | 8 | – | 1 | 21 | 9 |
| | 1 | 1 | 41 | 38 | – | 5 | 41 | 43 |
| | – | – | 16 | 8 | – | – | 16 | 8 |
| | – | – | 1 | 2 | – | – | 1 | 2 |
| | **1** | **1** | **79** | **56** | **–** | **6** | **79** | **62** |
| | | | | | | | | |
| | **–** | **–4** | **178** | **157** | **–** | **21** | **178** | **178** |
| | **–1** | **–5** | **84** | **68** | **–** | **21** | **84** | **89** |
| | | | | | | | | |
| | | | | | | | | |
| | – | – | –57 | –52 | – | –11 | –57 | –63 |
| | –1 | –1 | –94 | –89 | – | – | –94 | –89 |
| | | | | | | | | |
| | **30.06.17** | 31.12.16 | **30.06.17** | 31.12.16 | **30.06.17** | 31.12.16 | **30.06.17** | 31.12.16 |
| | 27 | 17 | 2 938 | 2 751 | – | – | 2 938 | 2 751 |
| | –59 | –45 | -1 020 | –884 | – | – | -1 020 | –884 |
| | **–32** | **–28** | **1 918** | **1 867** | **–** | **–** | **1 918** | **1 867** |
| | | | | | | | | |
| | **30.06.17** | 31.12.16 | **30.06.17** | 31.12.16 | **30.06.17** | 31.12.16 | **30.06.17** | 31.12.16 |
| | – | – | 5 280 | 4 902 | – | – | 5 280 | 4 902 |
| | 215 | 209 | 6 960 | 6 843 | – | – | 6 960 | 6 843 |
| | – | – | 1 874 | 1 787 | – | – | 1 874 | 1 787 |
| | 7 | 6 | 321 | 308 | – | – | 321 | 308 |
| | **222** | **215** | **14 435** | **13 840** | **–** | **–** | **14 435** | **13 840** |

[4] Does not include non-current assets acquired through business combinations.

# Acquisitions and Divestments

## Acquisitions in the first half year of 2017

On February 10, 2017, Oerlikon acquired the carbide technology business from Recentis Advanced Materials Canada Inc., Quebec, Canada. The acquisition expands Oerlikon Metco's technology portfolio.

On May 1, 2017, Oerlikon acquired all equity interests of Scoperta Inc., California, USA. Scoperta is an innovative solution provider in advanced materials development. With the acquisition, Oerlikon gains for its Surface Solutions Segment unique and proprietary process technology and expertise in rapidly designing and developing materials using computational software, which enables a fast identification of innovative material solutions.

The purchase consideration for the acquisitions of CHF 32 million includes CHF 10 million paid in cash in the reporting period and contingent consideration of CHF 22 million. The contingent consideration relates to earnout arrangements that are based on financial metrics (achievement of certain predefined sales targets) as well as non-financial metrics (employee retention targets). The potential undiscounted amount payable under the agreements is between CHF 0 million and CHF 29 million. The fair value of the contingent consideration was estimated by calculating the present value of the future expected cash flows. The calculations are based on the current estimates of the fulfillment of the conditions on which the payment of the earnouts depends and discount rates between 2.2 % and 2.6 %. A further expense of CHF 4 million will be incurred in the next two years for future services to be rendered.

The goodwill of CHF 18 million arising from the acquisitions is mainly attributable to the strengthening of the market position, the expertise of the workforce and the expected synergies from combining the operations of the acquired businesses with the Oerlikon Group. None of the goodwill recognized is expected to be deductible for income tax purposes.

The following table summarizes the consideration paid for the acquisitions and the fair value of assets acquired and liabilities assumed at the acquisition date.

## Consideration at the date of acquisition

| in CHF million | 2017 |
|---|---|
| Cash | 10 |
| Contingent consideration | 22 |
| **Total consideration** | **32** |

## Recognized amounts of identifiable assets acquired and liabilities assumed

| in CHF million | 2017 |
|---|---|
| Property, plant and equipment | 1 |
| Intangible assets | 20 |
| Deferred tax liabilities | –7 |
| **Total identifiable net assets** | **14** |
| Goodwill | 18 |
| **Total** | **32** |

The amounts recognized for the acquisitions are preliminary. Due to the timing of the acquisitions, certain information required to complete the recognition of the acquisitions remains outstanding.

Acquisition-related costs as well as the contribution of the acquired businesses to the sales and net income of the Oerlikon Group have been immaterial.

# Acquisitions and Divestments

## Divestment of the Vacuum Segment in 2016

On November 20, 2015, the Oerlikon Group signed an agreement with Atlas Copco to divest the Vacuum Segment. The transaction closed on August 31, 2016.

In connection with this divestment, Oerlikon has assumed certain customary obligations such as warranty obligations and indemnifications. The indemnification obligations cover in particular employment-, intellectual property- and business-related topics. The duration and overall liability caps for these indemnifications vary, but are customary for transactions of this nature.

## Result from discontinued operations

| | January 1 to June 30, 2016 |
|---|---:|
| in CHF million | Vacuum Segment |
| **Sales** | **182** |
| Total expenses | –165 |
| **Result before taxes (EBT) from operating activities** | **17** |
| Income taxes | –5 |
| **Result from operating activities** | **12** |
| **Result from discontinued operations, net of income taxes** | **12** |
| Attributable to: | |
| Shareholders of the parent | 12 |
| Earnings per share in CHF | 0.04 |
| Diluted earnings per share in CHF | 0.04 |

## Cash flow from discontinued operations

| | January 1 to June 30, 2016 |
|---|---:|
| in CHF million | Vacuum Segment |
| Cash flow from operating activities | 25 |
| Cash flow from investing activities | –6 |
| Cash flow from financing activities | –2 |
| **Net cash flows from discontinued operations** | **17** |

## Financial instruments

The carrying amounts and fair values of financial assets and liabilities as of June 30, 2017, including their levels in the fair value hierarchy, are as follows:

| in CHF million | Carrying amount | | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fair value – held for trading | Fair value – hedging instruments | Fair value – through profit & loss | Loans and receivables | Other financial liabilities | **Total** | Level 1 | Level 2 | Level 3 | **Total** |
| **Financial assets measured at fair value** | | | | | | | | | | |
| Foreign exchange contracts | – | 7 | – | – | – | **7** | – | 7 | – | **7** |
| Debt and equity securities | 17 | – | – | – | – | **17** | 17 | – | – | **17** |
| **Total** | **17** | **7** | **–** | **–** | **–** | **24** | **17** | **7** | **–** | **24** |
| **Financial assets not measured at fair value**[1] | | | | | | | | | | |
| Cash and cash equivalents | – | – | – | 691 | – | **691** | | | | |
| Deposits | – | – | – | 68 | – | **68** | | | | |
| Trade and other financial receivables | – | – | – | 470 | – | **470** | | | | |
| Loans and other non-current financial receivables | – | – | – | 22 | – | **22** | | | | |
| **Total** | **–** | **–** | **–** | **1 251** | **–** | **1 251** | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | | |
| Foreign exchange contracts | – | 4 | – | – | – | **4** | – | 4 | – | **4** |
| Other non-current liabilities | – | – | 21 | – | – | **21** | – | – | 21 | **21** |
| **Total** | **–** | **4** | **21** | **–** | **–** | **25** | **–** | **4** | **21** | **25** |
| **Financial liabilities not measured at fair value**[1] | | | | | | | | | | |
| Bonds | – | – | – | – | 450 | **450** | 478 | – | – | **478** |
| Finance lease liabilities | – | – | – | – | 7 | **7** | | | | |
| Trade payables | – | – | – | – | 277 | **277** | | | | |
| Accrued financial liabilities | – | – | – | – | 91 | **91** | | | | |
| Other loans and borrowings | – | – | – | – | 12 | **12** | | | | |
| **Total** | **–** | **–** | **–** | **–** | **837** | **837** | | | | |

[1] With the exception of the bonds, the Group has not disclosed the fair values for financial assets and liabilities not measured at fair value because their carrying amounts are a reasonable approximation of fair values.

# Financial instruments

The carrying amounts and fair values of financial assets and liabilities as of December 31, 2016, including their levels in the fair value hierarchy, are as follows:

| | Carrying amount | | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| in CHF million | Fair value – held for trading | Fair value – hedging instruments | Fair value – through profit & loss | Loans and receivables | Other financial liabilities | **Total** | Level 1 | Level 2 | Level 3 | **Total** |
| **Financial assets measured at fair value** | | | | | | | | | | |
| Foreign exchange contracts | – | 3 | – | – | – | **3** | – | 3 | – | **3** |
| Debt and equity securities | 10 | – | – | – | – | **10** | 10 | – | – | **10** |
| **Total** | **10** | **3** | **–** | **–** | **–** | **13** | **10** | **3** | **–** | **13** |
| **Financial assets not measured at fair value[1]** | | | | | | | | | | |
| Cash and cash equivalents | – | – | – | 751 | – | **751** | | | | |
| Deposits | – | – | – | 108 | – | **108** | | | | |
| Trade and other financial receivables | – | – | – | 374 | – | **374** | | | | |
| Loans and other non-current financial receivables | – | – | – | 22 | – | **22** | | | | |
| **Total** | **–** | **–** | **–** | **1 255** | **–** | **1 255** | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | | |
| Foreign exchange contracts | – | 4 | – | – | – | **4** | – | 4 | – | **4** |
| **Total** | **–** | **4** | **–** | **–** | **–** | **4** | **–** | **4** | **–** | **4** |
| **Financial liabilities not measured at fair value[1]** | | | | | | | | | | |
| Bonds | – | – | – | – | 449 | **449** | 480 | – | – | **480** |
| Finance lease liabilities | – | – | – | – | 7 | **7** | | | | |
| Trade payables | – | – | – | – | 239 | **239** | | | | |
| Accrued financial liabilities | – | – | – | – | 91 | **91** | | | | |
| Other loans and borrowings | – | – | – | – | 12 | **12** | | | | |
| **Total** | **–** | **–** | **–** | **–** | **798** | **798** | | | | |

[1] With the exception of the bonds, the Group has not disclosed the fair values for financial assets and liabilities not measured at fair value because their carrying amounts are a reasonable approximation of fair values.

**Measurement of fair values**
The different levels of fair values have been defined as follows:
- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** pricing inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- **Level 3:** valuation inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Level 1 fair values**
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume providing information on an ongoing basis. Instruments included in level 1 comprise investments in various debt and equity instruments via investment funds.

**Level 2 fair values**
The following table shows the valuation technique used in measuring level 2 fair values:

| Type of financial instrument | Valuation technique |
|---|---|
| Foreign exchange contracts | The fair values of foreign exchange hedging contracts are based on broker quotes. Similar contracts traded in an active market and the quotes reflect the actual transactions in similar instruments. |

**Level 3 fair values**
The following table shows the valuation technique used in measuring level 3 fair values:

| Type of financial instrument | Valuation technique |
|---|---|
| Other non-current liabilities | The valuation of the contingent consideration is based on the current estimate of the fulfillment of the conditions on which the payment of the earnout depends. The fair value is based on various unobservable inputs. A change in these inputs may result in a significantly higher or lower fair value. |

**Transfers between level 1 and 2**
There were no transfers between level 1 and 2 during the year.

## Provisions

| in CHF million | Product warranties | Acquiree's contingent liabilities[1] | Restructuring[2] | Other provisions[3] | **Total** |
|---|---|---|---|---|---|
| Balance at January 1, 2017 | 29 | 69 | 82 | 32 | **212** |
| Conversion differences | – | –3 | 1 | – | **–2** |
| Additions[4] | 4 | 1 | 1 | 8 | **14** |
| Amounts used | –4 | – | –11 | –6 | **–21** |
| Amounts reversed | –3 | –3 | – | –2 | **–8** |
| **Balance at June 30, 2017** | **26** | **64** | **73** | **32** | **195** |
| of which: | | | | | |
| Due within 1 year | 23 | – | 22 | 22 | **67** |
| Due beyond 1 year | 3 | 64 | 51 | 10 | **128** |

[1] Acquiree's contingent liabilities pertain to the Surface Solutions Segment. Contingent liabilities have been recognized primarily due to environmental liabilities as well as certain litigation and potential tax risks. Any potential cash outflow is estimated to occur during the next 10-15 years. The selling shareholders have contractually agreed to indemnify Oerlikon for an amount up to CHF 20 million related to certain of these environmental liabilities.

[2] The restructuring provision pertains to the Drive Systems (CHF 48 million), Manmade Fibers (CHF 21 million) and Surface Solutions (CHF 4 million) Segment. The restructuring of the Manmade Fibers Segment is due to a need to adapt the Segment's structure and lower its cost base measurably. The Drive Systems Segment reorganization includes mainly the resizing of the organization. The restructuring provision relates mostly to personnel expenses.

[3] Other provisions cover various risks which occur in the normal course of business. They consist mainly of provisions for pending litigation, technical risks and onerous contracts.

[4] Includes unwinding of discount for non-current provisions.

## Subsequent events

No events occurred between the balance sheet date and the date on which this report was approved by the Board of Directors that could have a significant impact on the consolidated financial statements as of June 30, 2017.

This interim report is also available in German.
The English language version of Oerlikon’s Interim Report is the binding version.

## Disclaimer and cautionary statements

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